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INTERNATIONAL HARVESTER CANADA

Annual Report 1975





INTERNATIONAL HARVESTER CANADA

General Offices: 208 Hillyard Street, Hamilton, Ontario, L8N 3S5

Annual Report 1975

The fiscal year ended October 31, 1975

Financial Highlights

(fully consolidated basis)

	1975	1974
	Dollar amounts in thousands	Dollar amounts in thousands
Sales	\$713,994	\$550,022
Net Income	\$ 22,109	\$ 23,640
Per cent of Sales	3.10%	4.30%
Per cent of Shareholders' Equity — Beginning of Year	16.51%	19.38%
Dividends Paid	\$ 14,600	\$ 11,700
Income Retained	\$ 7,509	\$ 11,940
Taxes — Federal, Provincial and Local	\$ 33,694	\$ 45,728
Depreciation and Amortization	\$ 5,556	\$ 4,884
Capital Expenditures	\$ 10,807	\$ 19,977
Long-term Debt	\$113,971	\$ 71,709
Shareholders' Equity at End of Year	\$141,425	\$133,916
Average Number of Employees (Canada)	7,120	7,144

*Ce rapport est publié en français
et en anglais. Si vous préférez un
exemplaire français, veuillez écrire
au Directeur des Relations publi-
ques de la compagnie.*



INTERNATIONAL HARVESTER CANADA

Directors and Officers

at October 31, 1975

Board of Directors

Charles C. Brannan	William R. Fleming
William E. Callahan	Joseph A. Hart
Paul B. Carter	W. Norman Smith
Thomas L. Dougherty	John L. Wade
Earle L. Edmonds	

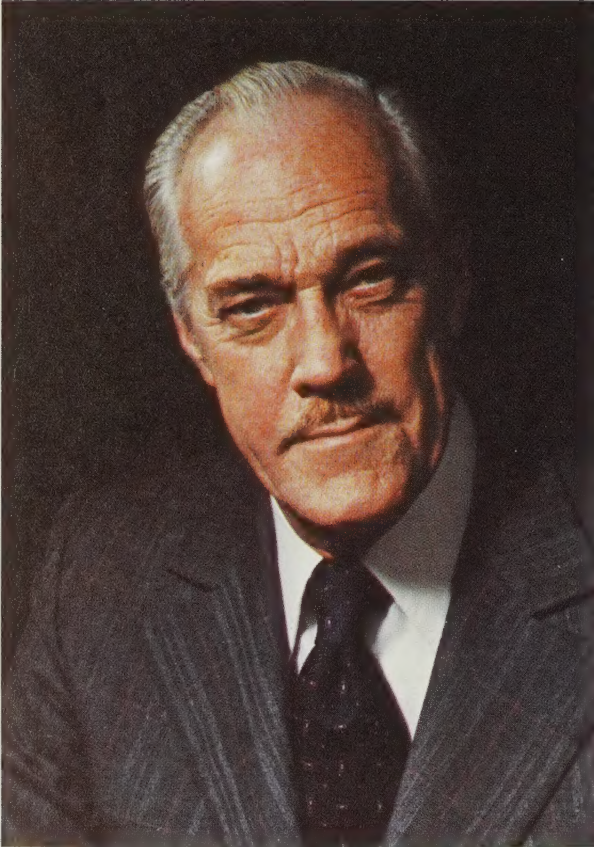
Officers

W. Norman Smith	<i>President</i>
William R. Fleming	<i>Executive Vice President</i>
Paul B. Carter	<i>Vice President, Finance</i>
Thomas L. Dougherty	<i>Vice President, Marketing</i>
Joseph A. Hart	<i>Vice President, Manufacturing and Employee Relations</i>
John L. Wade	<i>Vice President, Agricultural, Industrial and Construction Equipment Sales</i>
Edward R. Griffith	<i>Treasurer</i>
William R. Ofield	<i>Comptroller</i>
Vernon D. Sykes	<i>Secretary</i>

Other Executives

Charles W. Wolfard	<i>Director, Project Planning</i>
Donald A. Brown	<i>Manager, Industrial Equipment Sales</i>
W. Norman Buckingham	<i>Manager, Public Relations</i>
John E. Colby	<i>Manager, Supply and Inventory</i>
T. Donald Husband	<i>Manager, Truck Sales</i>
Alex R. McCombe	<i>Manager, Construction Equipment Sales</i>
Charles J. Munro	<i>Manager, Agricultural and Consumer Products Sales</i>
Ronald E. Penfold	<i>Manager, Engineering</i>
Donald A. Thorsell	<i>Manager, Sales Finance</i>

President's Letter



The Company's 1975 sales were in excess of \$700 million, a substantial increase over those of 1974. At \$22 million, net income approached the record level established in the prior year. These results were encouraging in view of the unsettled economic conditions that prevailed in many of our markets.

While the agricultural sector remained buoyant, the other major industries we serve were influenced to varying degrees by the general economic downturn.

We were particularly affected by the drop in demand for heavy-duty trucks in both the United States and Canada. As a result, it was necessary to suspend operations at our Chatham truck plant for a number of weeks.

Our two truck manufacturing subsidiaries, Pacific Truck & Trailer Ltd. at Vancouver, and Seddon Diesel Vehicles Limited, in Oldham, England were also severely affected by conditions in their respective markets.

Notwithstanding, we can consider 1975 as a reasonably successful year for International Harvester Canada. Our sales showed solid gains and our income was comparable to that of the previous year.

In looking ahead, making better use of our assets and improving on their rate of return, is our primary objective.

Our now well-established Planning/Management System will enable us to chart our course with defined objectives and goals for all management to follow. It will provide a clear picture for the most effective deployment of our assets.

We are committing a major portion of our capital funds to more efficient production equipment in our manufacturing facilities. At the same time, we are taking a more vigorous approach to strengthening our total distribution system.

Most importantly, Manpower Planning and Career Path Planning programs for our people have been instigated. Personal goals and incentives are being highlighted, accompanied by development and training programs. In this rapidly changing and complex society, it is essential that we have qualified, well-trained people. To this end, we are dedicated.

We approach 1976 with cautious optimism in an atmosphere of domestic uncertainty and apprehension.

One of the most critical factors for Canada's economic outlook will be the overall effect of the federal government's anti-inflation program. The need for vigorous and collective effort to combat inflation is widely recognized and long overdue. Unless Canada can break the inflation cycle, its products will be priced out of world markets. This would have serious effects on employment and on the stability of the Canadian currency.

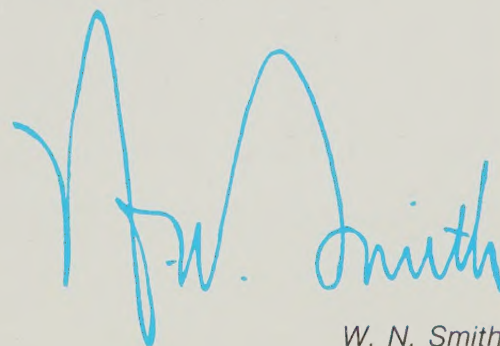
We can also hope for new fiscal and monetary policies that will make capital more readily available for investment in the private sector. Uncertainties as to our economic future and the role that governments will play therein, are discouraging investment that would help ensure our continued growth in higher productivity. The present situation makes it all the more vital for companies to have sufficient profit to generate their own investment capital.

There is no doubt that Canada has enviable opportunities. It is rich in resources and its products are well received in world markets. There are tremendous opportunities in every province and every region of Canada. If we are to make the most of them, we must see them as opportunities to be shared by every part of the country and by every sector of the economy. The more closely we work together, the more certain we are to prosper together.

There is much to be gained from a fruitful and co-operative partnership between business and government. The role of government is to create an environment for growth, efficiency and productivity in the private sector. The challenge for government is to fulfill this role without impairing the spirit of free enterprise that has achieved so much in the past and can contribute even more to the development of the nation.

Like all Canadians, we are concerned with the trend by government toward a socialistic state. Let us hope that community of effort will direct us toward a more equitable productive and stable future.

The efforts of our employees, dealers and distributors, contributed greatly to our 1975 results. On behalf of the Board of Directors, I express our deep sense of gratitude. To our customers and suppliers, our appreciation for their continued confidence and support.

A handwritten signature in blue ink, appearing to read 'W. N. Smith'. The signature is stylized with large, sweeping loops and a cursive 'Smith' at the end.

W. N. Smith

1975 Review / 1976 Outlook

Markets and Products

A record level of sales was achieved in 1975. These results were attained even though the demand for certain of our products was affected by the downturn in the economy.

Agricultural Equipment

Agriculture, especially in western Canada, was our best market during 1975. In spite of accelerated production schedules, demand for certain models of tractors, combines and other agricultural equipment exceeded supply.

As a result of the continuing trend to larger acreages and the need for higher productivity, two additional models of four-wheel-drive tractors were introduced in

1975. These were a 57 horsepower model for eastern Canada and a 300 horsepower model for western Canada.

1976 will see the introduction of other new products including a series of Hamilton manufactured windrowers with hydrostatic drive. These have been designed by our Hamilton product engineers who are also currently involved in the development of a new generation of tillage tools for use with large four-wheel-drive tractors.

We also experienced a continuing strong agricultural market for our well-accepted line of medium-duty Loadstar and Cargostar trucks. An interesting trend in this market is the demand for large tandem-axle units.

Indications for 1976 are that the agricultural economy will remain strong and we are entering the year with a good order board.

Tillage equipment to match the power of four-wheel-drive tractors is an important product category at our Hamilton plant. This 4366 tractor produces 225 horsepower.



Trucks

The general economic decline had a marked adverse effect on the demand for heavy-duty trucks. At the same time however, we increased our share of this important market.

The medium-duty market was not affected and we have been particularly successful in the sale of trucks for use in refuse handling, highway maintenance and fire fighting, along with strong participation in the school bus market.

During 1975 the Company introduced a new series of heavy-duty Energy Efficient Vehicles with improved

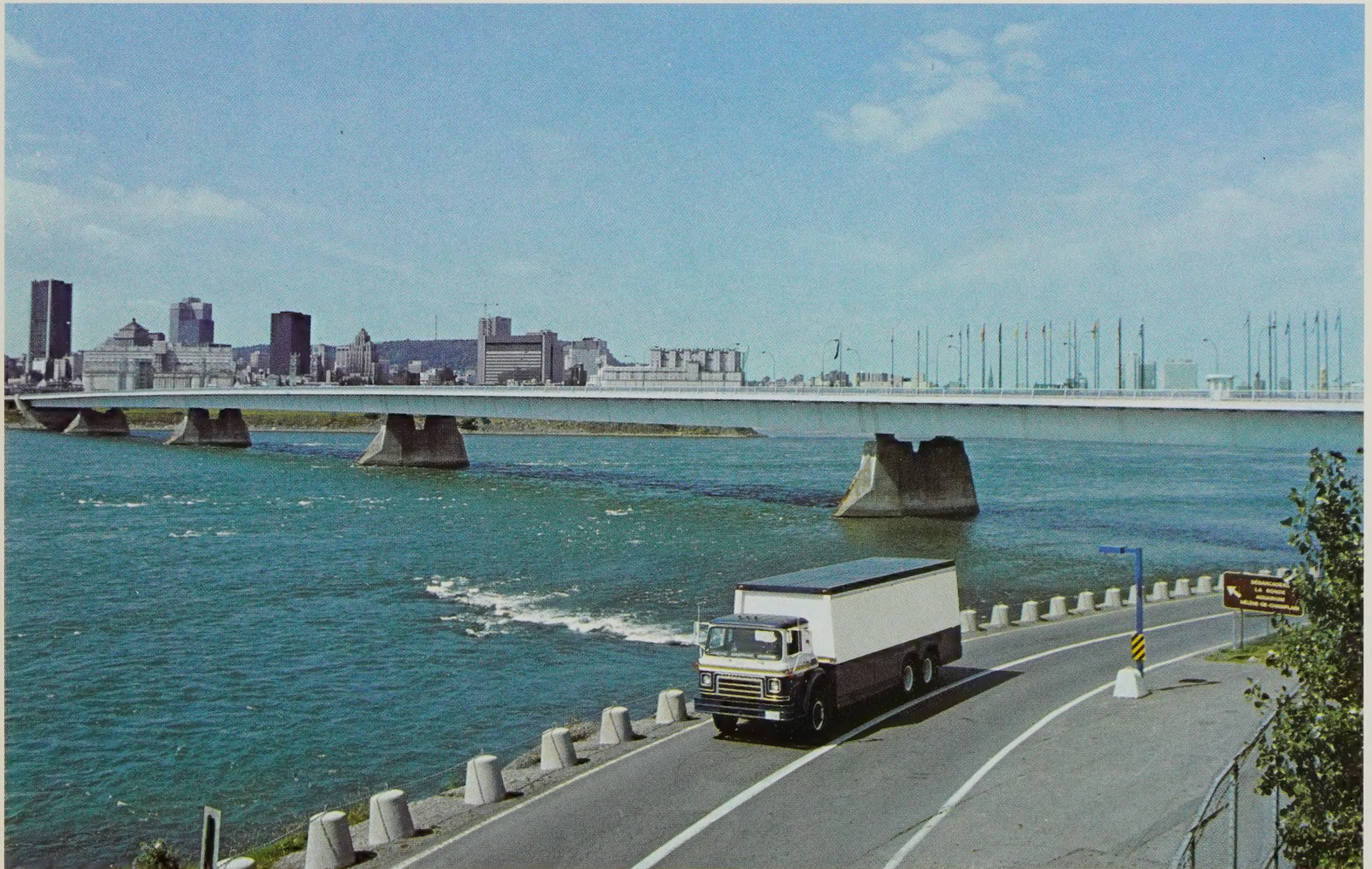
performance resulting from engine design and special power trains, together with wind deflectors and radial tires.

A new family of gasoline engines of 188, 210 and 235 horsepower was announced for our Loadstar and Cargostar trucks. These have received excellent customer reception due to their greater efficiency and performance. Substantial improvements in fuel economy have been achieved from their modern design.

For the owner-operator, we introduced the customized heavy-duty Transtar Eagle.

At the present time, economic conditions are such that we see a minimal change in market demand from that of last year. It is encouraging to note however, a definite interest among major fleets in updating their equipment to take advantage of the efficiencies of the newer models.

The Cargostar truck series is built at Chatham for the North American and overseas markets. With a broad range of options and specifications, the Cargostar is adaptable to a wide variety of requirements.



Construction Equipment

The construction and resource industries are important markets for our line of construction equipment as well as for International and Pacific trucks. In fact, no other company offers such a wide range of productive power for the job site.

In 1975, activity in these industries was restricted which reduced demand for our equipment. This was particularly true in the forest and construction industries. At the same time however, we increased our participation in the large crawler tractor and loader markets.

A bright spot for us was the continuing development of the James Bay project in Quebec. We have been active participants, supplying a large amount of equipment including crawler tractors, loaders and fifty-ton Pay hauler trucks.

During 1975, the Company introduced important new products to serve our construction and resource industries. The 210 horsepower TD-20E crawler tractor, with its high ground clearance, is especially suited for the woodlands and construction markets. A new excavator model was introduced that features more efficient use of energy by means of a newly designed hydraulic system.

The largest single-engine rubber-tired loader available, equipped with a 21 cubic yard bucket, was announced.

Looking beyond this year's business, where little change from 1975 is anticipated, there can be no doubt that Canada's resource industries offer tremendous opportunities. New developments in the coal, electrical, gas and oil industries hold great potential for our construction equipment and trucks as well as for our Solar gas turbines.

Newest and largest International Pay loader, the 580 model has a bucket capacity of 21 cubic yards.



Recreational Vehicles

The Company recently introduced a new series of vehicles which will strengthen our position in the sports utility market. They will enable us to further expand our participation as the popularity of recreational vehicles increases. The Scout line includes the Scout II, a versatile, compact wagon that combines style and performance with rugged off-road capability. Other models include the hatchback Traveler station wagon and the Terra compact pickup. All are available with diesel power. Four-wheel-drive is standard in all models for cross-country mobility and exceptional traction.

The use of outdoor power products for the home continues to increase. The Company provides walk-behind mowers, snow blowers, leaf mulchers and other products

The Traveler station wagon is one of three sports utility vehicles in the new Scout line. Other models are the Scout II and the Terra pickup.



as well as the wide range of Cub Cadet lawn and garden tractors.

Exports

Approximately two-thirds of the products manufactured in our Canadian plants are exported to the United States and some 70 off-shore countries.

Our overseas exports reached a record level in 1975. We secured large orders for trucks, tillage equipment and windrowers from countries in Europe, Asia and Africa.

There is a growing need for our products, especially in the developing countries and we expect the export area of our business to show continuing growth.

As farm acreages continue to increase, the use of modern, productive equipment such as this International combine, becomes more essential.



Manufacturing

We are making substantial investments to ensure that production capacity will match our future market opportunities.

A major investment at the Hamilton plant has been made in a new facility for the production of tillage disks. The installation includes the first use in any of International Harvester's worldwide plants of Uni-Mates. These are mechanical robots that will automatically handle hot steel disks.

Other major investments at Hamilton for 1976 will provide tool equipment for the production of new tillage equipment. We are also expanding the use of high speed, high precision, numerically-controlled machine tools.

A new type of acrylic paint in use at the Hamilton plant meets all requirements for finish and durability, but eliminates the need for highly volatile thinners that could be an environmental hazard if they were to escape into the atmosphere or water.

Built in Vancouver, Pacific trucks are used on heavy-duty applications across Canada and abroad. This P-12 model with dump body hauls 40 tons of coal.



Employee Relations

Average employment during 1975 was 7,120, comparable to that in the previous year. In 1975 major labour agreements were signed at our Chatham and Candiatic plants and the parts distribution centre in Burlington. Labour negotiations involve us with 26 locals across the country.

Employee training continues to have strong emphasis throughout the Company. At our Sales & Service Centres, there are 127 apprentice mechanics and other employees at our plants are also learning skilled trades. Employees are encouraged to participate in educational programs related to their present functions or to train them for future responsibilities. In 1975 we paid full tuition refunds for 200 employees who successfully completed their studies.

New power leader in its class, the TD-20E crawler tractor has many new features.



We were gratified by the success of safety training activities throughout the Company that brought a fifty per cent reduction in accidents during 1975. Our Hamilton and Chatham plants both achieved two million consecutive hours without a lost time accident as defined by the rules of the Industrial Accident Prevention Association.

As a result of our success, several companies and organizations have asked us to outline our safety campaign and procedures so that they may benefit from our experience.

Continued Growth

Our organization is dedicated to providing products and services that are used in meeting the fundamental needs of society. While the economic outlook for 1976 makes it difficult to project the market for all our product lines, each industry we serve has good long-range prospects and we are confident of continued growth and development.

Final assembly in Hungary of Canadian-built windrowers is supervised by a quality control inspector from the Hamilton plant.



Executive Changes

William R. Fleming was elected Executive Vice President.

Paul B. Carter was elected Vice President—Finance, and a Director.

Thomas L. Dougherty was elected Vice President—Marketing, and a Director.

William R. Ofield was appointed Comptroller.

Vernon D. Sykes was elected Secretary.

Donald A. Thorsell was appointed Manager, Sales Finance.

Lester W. Lincke, Vice President and Comptroller, and a Director, resigned to accept a position with International Harvester Company.

Earle L. Edmonds, Secretary, and Lawrence J. Murphy, Manager, Sales Finance, retired during 1975. Mr. Edmonds continues as a member of the Board of Directors.

Agricultural equipment leaves the Hamilton plant for world markets. For many of the products that the Hamilton plant builds, it is the exclusive source for the IH worldwide organization.





INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

Consolidated Statement of Income and Income Retained

For the Years ended October 31, 1975 and 1974

	1975 in thousands	1974 in thousands
Sales and Other Revenues		
Sales		
Canadian operations to:		
Dealers and users in Canada	\$427,777	\$401,361
International Harvester Company	187,984	145,170
Other affiliated companies and jobbers	13,719	3,491
	<u>629,480</u>	<u>550,022</u>
Seddon Diesel Vehicles Limited	84,514	—
	<u>713,994</u>	<u>550,022</u>
Finance operations revenue	21,142	16,220
	<u>21,142</u>	<u>16,220</u>
Total Sales and Other Revenues	<u>735,136</u>	<u>566,242</u>
Costs and Expenses		
Cost of sales	616,160	465,475
Marketing and administrative expenses	47,263	36,267
Interest expense	24,685	18,550
Sundry deductions less other income	4,045	2,201
Provision for income taxes		
Current	16,195	18,763
Deferred	4,679	1,346
	<u>20,874</u>	<u>20,109</u>
Total Costs and Expenses	<u>713,027</u>	<u>542,602</u>
Net Income	22,109	23,640
Dividends Paid	14,600	11,700
Income Retained — for the year	7,509	11,940
— at beginning of the year	118,916	106,976
— at end of the year	<u>\$126,425</u>	<u>\$118,916</u>

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.

**Consolidated Statement of Financial Condition**

October 31, 1975 and 1974

Assets	1975 in thousands	1974 in thousands
CURRENT ASSETS		
Cash	\$ 398	\$ 148
Notes receivable (note 1)	149,515	125,617
Accounts receivable — less allowances	44,251	36,614
Accounts receivable from affiliated companies	9,689	74
Deferred income taxes	1,970	1,475
Inventories (note 2)	134,173	131,836
Total Current Assets	339,996	295,764
NOTES RECEIVABLE, LONG-TERM (note 1)	88,836	79,476
PROPERTY, PLANT AND EQUIPMENT		
at cost, less depreciation and amortization (note 3)	50,222	45,854
OTHER ASSETS	9,868	9,843
Total Assets	\$488,922	\$430,937
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Bank indebtedness	\$ 5,362	\$ 6,185
Notes payable		
Banks	54,192	47,767
Commercial paper	101,810	98,671
Current maturities of long-term debt	8,527	5,535
Current invoices, payrolls and accruals	51,450	55,942
Accrued taxes	3,006	7,209
Amounts due to affiliated companies	2,712	2,710
Total Current Liabilities	227,059	224,019
LONG-TERM DEBT (note 4)	113,971	71,709
DEFERRED INCOME TAXES	6,467	1,293
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized, issued and fully paid — 150,000 common shares of \$100 par value	15,000	15,000
Income retained	126,425	118,916
Total Shareholders' Equity	141,425	133,916
Total Liabilities and Shareholders' Equity	\$488,922	\$430,937

Approved by the Board: W. N. Smith, *Director*
P. B. Carter, *Director*

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.

**Consolidated Statement of Changes in Financial Position**

For the Years ended October 31, 1975 and 1974

	1975 in thousands	1974 in thousands
Source of Working Capital		
Net income	\$ 22,109	\$ 23,640
Items not affecting working capital		
Depreciation and amortization	5,556	4,884
Deferred income taxes	5,174	1,293
Other	238	111
Working capital provided from operations	33,077	29,928
Property disposals	560	871
Increase in long-term debt	42,262	17,111
Other — net	60	—
Total Source	75,959	47,910
Application of Working Capital		
Capital expenditures		
Canadian facilities	7,918	5,528
Equipment for lease	564	1,121
Seddon Diesel Vehicles Limited	2,325	—
Total capital expenditures	10,807	6,649
Seddon Diesel Vehicles Limited — property, plant and equipment included in acquisition	—	13,328
Dividends paid	14,600	11,700
Increase in notes receivable, long-term	9,360	16,180
Other — net	—	5,590
Total Application	34,767	53,447
Increase (Decrease) in Working Capital	41,192	(5,537)
Working Capital — at beginning of the year	71,745	77,282
— at end of the year	\$112,937	\$ 71,745
Changes in Working Capital		
Cash	\$ 250	\$ 45
Notes and accounts receivable	41,150	34,031
Deferred income taxes	495	(52)
Inventories	2,337	46,266
Bank indebtedness	823	1,392
Notes payable — banks and commercial paper	(9,564)	(60,746)
Current maturities of long-term debt	(2,992)	432
Current invoices, payrolls and accruals	4,492	(24,320)
Accrued taxes	4,203	(1,586)
Amounts due to affiliated companies	(2)	(999)
Increase (Decrease) in Working Capital	\$ 41,192	\$ (5,537)

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.

Auditors' Report

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world Chartered Accountants

105 MAIN STREET EAST HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

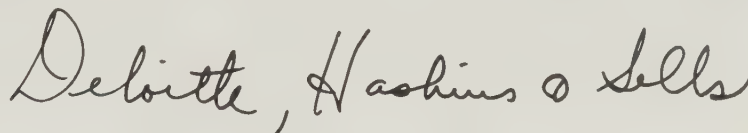
We have examined the consolidated financial statements of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1975 and 1974 and for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements (pages 10 through 14) present fairly the financial position of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1975 and 1974 and the results of their operations and changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying partially consolidated financial statements as at October 31, 1975 and 1974 and for the years then ended, which are presented as supplementary information to be read in conjunction with the above mentioned consolidated financial statements.

In our opinion, these partially consolidated financial statements (pages 17 through 20) present fairly the financial position of the Company as at October 31, 1975 and 1974 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, except that they are prepared on a partially consolidated basis, applied on a basis consistent with that of the preceding year.

November 28, 1975.



Summary of Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of International Harvester Company of Canada, Limited and its wholly-owned subsidiaries, Pacific Truck & Trailer Manufacturing, Ltd., Seddon Diesel Vehicles Limited (acquired June 30, 1974), Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited. The Consolidated Statement of Financial Condition contains the assets and liabilities of Seddon Diesel Vehicles Limited at June 30, 1974 and 1975. The operations of Seddon Diesel Vehicles Limited have been included in the 1975 Statement of Income and Income Retained based on its results for the year ended June 30, 1975 (see page 20 for details). Investments in co-dealerships are carried at cost.

By way of supplementary information (pages 17 through 20) comparative financial statements for 1975 and 1974 are presented on a basis to reflect the results of Canadian manufacturing and trading operations which the Company considers to be more informative as this information is not available from the consolidated accounts. The Canadian manufacturing and trading subsidiary, Pacific Truck & Trailer Manufacturing, Ltd. is consolidated. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited (acquired June 30, 1974) and the finance subsidiaries Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained.

Summarized financial data is set out separately for the major wholly-owned subsidiaries which have not been consolidated — Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited on page 20.

Foreign Exchange

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Other foreign currency assets and liabilities are translated generally at the exchange rate prevailing at the time of acquisition. Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation is translated at the exchange rates prevailing at the time the related assets were acquired. Unrealized losses resulting from translations have been charged against income.

Inventory Valuation

Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which does not exceed net realizable value and, with respect to labour and overhead, is the cost considered attainable under normal operating conditions.

Depreciation and Amortization

Depreciation and amortization is generally computed on a straight-line basis over the useful lives of the various classes of properties.

Deferred Income Taxes

The Company and its subsidiaries recognize the tax effect of each item in the statement of income in the current period regardless of when the tax is paid. Taxes on amounts which affect financial and taxable income in different periods are reported as deferred income taxes.

Engineering and Research Expenditures

Expenditures for the development of new and improved products are charged to costs as incurred.

Notes to Consolidated Financial Statements

	1975 in thousands	1974 in thousands
1. Notes Receivable		
Notes receivable — wholesale	\$ 84,168	\$ 78,156
— retail	181,108	148,356
Unearned finance charges	(23,581)	(18,738)
Allowance for doubtful notes	(2,294)	(2,077)
Allowance for trade allowances and deferred discounts	(1,050)	(604)
Total Notes Receivable	238,351	205,093
Less current portion	149,515	125,617
Notes Receivable, Long-term	\$ 88,836	\$ 79,476
2. Inventories		
Finished goods	\$ 74,680	\$ 71,857
Raw materials and supplies	44,135	45,829
Work-in-progress	15,358	14,150
Total Inventories	\$134,173	\$131,836
3. Property, Plant and Equipment		
Buildings, machinery and equipment at cost:		
Manufacturing	\$ 59,372	\$ 55,462
Distribution	19,738	19,022
Other	11,594	11,861
	90,704	86,345
Less accumulated depreciation	51,137	49,067
	39,567	37,278
Tooling and pattern equipment, at cost, less amortization	4,079	2,281
Land at cost	6,576	6,295
Net Property	\$ 50,222	\$ 45,854
4. Long-term Debt		
International Harvester Company of Canada, Limited		
10½% Medium Term Notes, Series A, due 1976 to 1979 with interest payable semi-annually	\$ 25,000	\$ 16,225
Subsidiaries		
5¼% — 12½% Senior Indebtedness, Series A to D debentures and notes due 1975 to 1993 with interest payable annually, semi-annually and monthly	74,021	49,375
6%, to 1½% over Canadian bank prime rate, Subordinated Indebtedness — notes, due 1977 to 1984, with interest payable semi-annually, quarterly and monthly (includes \$6,600,000 U.S. funds due to affiliates)	23,111	11,111
Other long-term obligations — 7% debenture and 7¼% mortgage loans payable to 1991, and a 1977 6% debenture — all secured by subsidiaries' assets	366	533
	122,498	77,244
Less current portion	8,527	5,535
Long-term Debt	\$113,971	\$ 71,709

Covenants attached to the 10½% Medium Term Notes, Series A restrict the distribution of earnings subsequent to November 1, 1973 to not more than 60% of consolidated net earnings available for distribution.

5. Retirement Plans

The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense for 1975 was \$6,626,000 (1974 — \$4,795,000). Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs which are being funded over 25 years from January 1, 1965. The actuarially computed unfunded liability in respect of past service benefits at October 31, 1975 was \$35,260,000, of which \$28,210,000 was vested in accordance with the terms of the plans but for which the Company does not have a legal obligation.

6. Statutory Information

The remuneration to directors and senior officers as defined in the Business Corporations Act, Ontario, for the year ended October 31, 1975 amounted to \$440,000 (1974 — \$339,000).

7. Contingent Liabilities

Claims pending against the Company arising out of the conduct of its business include several in which claims are made in substantial amounts. The Company's liability in respect of such contingent liabilities was not determinable at October 31, 1975 but it is the opinion of the management that any resulting liability will not materially affect the consolidated financial position or results of operations of the Company and its consolidated subsidiaries. The Company sold certain notes of its finance subsidiary to banks with settlement of these notes guaranteed by the Company.

Financial Review

Basis of Review

In order to present a more informative report, for reasons stated in the Summary of Accounting Policies — Basis of Consolidation on page 13, the financial review presentation is based on the financial data shown as Supplementary Information on pages 17 through 20 which reflect the results of Canadian manufacturing and trading operations.

Sales

Sales in 1975 were \$627,723,000. This exceeded 1974, the previous record year, by 14.5%. Domestic sales were 6.7% higher in 1975 than in 1974. The Agricultural Equipment, Outdoor Power Products and Construction Equipment product groups increased significantly while Trucks and Industrial Equipment decreased. Canadian produced goods sold to export markets in 1975 were \$201,703,000, an increase of 35.7% over 1974.

Net Income

Net income in 1975 was \$22,109,000 compared to \$23,640,000 in 1974, a decrease of 6.5%. The income of the Canadian manufacturing and trading operations was \$18,301,000, a decrease of 8.4% from 1974. Costs and expenses increased faster than revenues resulting in a reduced profit on sales of 2.9% compared to 3.6% in 1974. The \$909,000 net loss of Seddon Diesel Vehicles Limited (acquired June 30, 1974) for the period July 1, 1974 to June 30, 1975 has been charged against net income. Details of this loss are summarized on page 20. The exchange loss of \$292,000 resulted from the continued weakening trend in the value of the British pound in relation to the Canadian dollar throughout 1975.

Earnings of our major finance subsidiary, International Harvester Credit Corporation of Canada Limited were \$4,700,000, an increase of 29.1% over 1974, the previous record year. This substantial increase resulted from a higher volume of business together with lower interest rates in 1975 compared to 1974.

Inventories

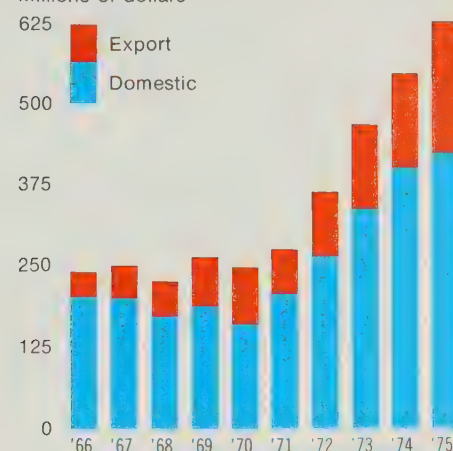
Total inventories of finished goods, raw materials and supplies and work-in-process were \$106,446,000 in 1975 compared to \$109,091,000 in 1974, a decrease of 2.4%.

Inventories are summarized by major classifications as follows:

	1975 in thousands	1974 in thousands
Finished goods	\$ 64,446	\$ 66,765
Raw materials and supplies	30,380	31,695
Work-in-process	11,620	10,631
Total Inventories	<u>\$106,446</u>	<u>\$109,091</u>

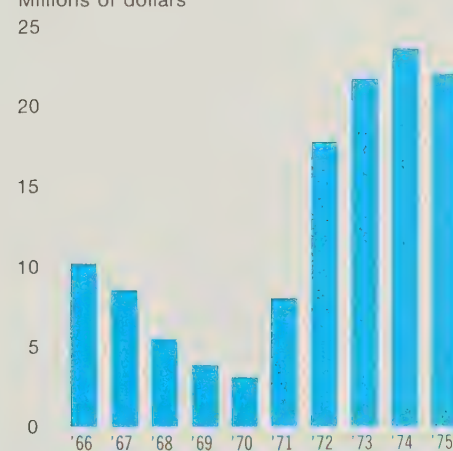
Sales

Millions of dollars



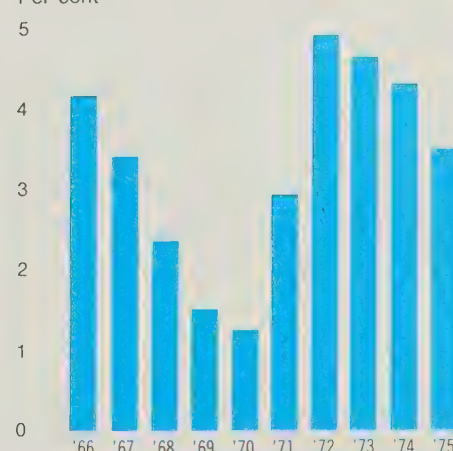
Net Income

Millions of dollars



Return on Sales

Per cent



Financial Review (continued)

Property, Plant and Equipment

Capital expenditures of the Canadian manufacturing and trading companies totalled \$6,303,000 for 1975 fiscal year as compared to \$4,233,000 for the previous year. Commitments on appropriations in progress at October 31, 1975 approximated \$5,326,000. The continuing success of our Company dictates a commitment to increased productivity. The Company's investment plans are dedicated to the modernization of facilities and subsequent improvement in overall productivity.

Property, plant and equipment by major classes are as follows:

	1975 in thousands	1974 in thousands
Buildings, machinery and equipment, at cost:		
Manufacturing	\$51,929	\$48,340
Distribution	17,724	17,010
Other	518	662
	70,171	66,012
Less accumulated depreciation	46,645	44,762
	23,526	21,250
Tooling and pattern equipment, at cost, less amortization	2,140	1,583
Land at cost	1,749	1,749
Net Property	\$27,415	\$24,582

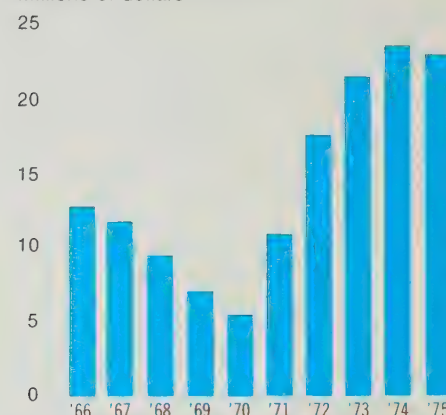
Employment

The Company's average employment in Canada in 1975 was 7,120 compared to 7,144 in 1974. Compensation paid to employees in 1975 was \$92,553,000. In addition, approximately \$15,300,000 was paid for insurance, medical and pension plans and other fringe benefits.

Of the \$92,553,000 for compensation, \$82,527,000 was paid for time worked and \$10,026,000 was paid for vacations and statutory holidays. Comparable 1974 compensation was \$77,959,000 of which \$69,632,000 was for time worked and \$8,327,000 was for vacations and statutory holidays. In addition, approximately \$12,500,000 was paid for fringe benefits in 1974.

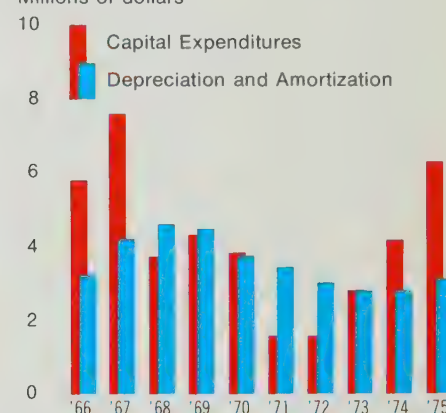
Working Capital Added by Operations

Millions of dollars



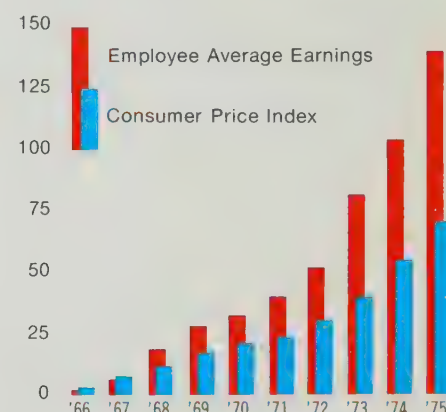
Capital Expenditures and Depreciation and Amortization

Millions of dollars



Employee Average Earnings/Consumer Price Index

Per cent Increase
(Base 1965 = 100)



Supplementary Information

This presentation shows the financial positions and results of International Harvester Company of Canada, Limited and Pacific Truck & Trailer Manufacturing, Ltd. on a consolidated basis with the foreign subsidiary Seddon Diesel Vehicles Limited (acquired June 30, 1974), and the finance subsidiaries accounted for on an equity basis (see Basis of Consolidation on page 13).



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Consolidated Subsidiaries

Statement of Income and Income Retained

For the Years ended October 31, 1975 and 1974

	1975 in thousands	1974 in thousands
Sales and Other Revenues		
Sales		
Dealers and users in Canada	\$426,020	\$399,388
International Harvester Company	187,984	145,170
Other affiliated companies and jobbers	13,719	3,491
	<u>627,723</u>	<u>548,049</u>
Other income, less sundry deductions (includes \$774,000 interest earned from Seddon Diesel Vehicles Limited in 1975)	(262)	1,919
Total Sales and Other Revenues	<u>627,461</u>	<u>549,968</u>
Costs and Expenses		
Cost of sales	537,598	465,651
Marketing and administrative expenses	40,443	34,499
Charges for financing services on wholesale notes sold to finance subsidiary	9,976	9,891
Interest expense	6,026	3,534
Provision for income taxes		
Current	14,324	16,164
Deferred	793	256
Total Costs and Expenses	<u>609,160</u>	<u>529,995</u>
INCOME — CANADIAN MANUFACTURING AND TRADING OPERATIONS	18,301	19,973
LOSS — SEDDON DIESEL VEHICLES LIMITED (page 20)	(909)	—
INCOME OF FINANCE SUBSIDIARIES	4,717	3,667
Net Income	22,109	23,640
Dividends Paid	14,600	11,700
Income Retained — for the year	7,509	11,940
— at beginning of the year	118,916	106,976
— at end of the year	<u>\$126,425</u>	<u>\$118,916</u>

The accompanying Summary of Accounting Policies, Notes 5, 6 and 7 and the Financial Review are an integral part of this statement.

Supplementary Information (continued)



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Consolidated Subsidiaries

Statement of Financial Condition

October 31, 1975 and 1974

Assets	1975 in thousands	1974 in thousands
CURRENT ASSETS		
Cash	\$ 398	\$ 106
Accounts receivable — less allowances	35,235	26,580
Accounts receivable from affiliated companies	10,084	74
Notes and accounts receivable from finance subsidiaries	2,216	9,076
Deferred income taxes	1,805	1,707
Inventories (page 15)	106,446	109,091
Total Current Assets	156,184	146,634
EQUITY IN SEDDON DIESEL VEHICLES LIMITED	21,973	22,882
EQUITY IN FINANCE SUBSIDIARIES	29,483	25,175
PROPERTY, PLANT AND EQUIPMENT, at cost, less depreciation and amortization (page 16)	27,415	24,582
OTHER ASSETS	8,051	14,564
Total Assets	\$243,106	\$233,837
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Bank indebtedness	\$ 5,216	\$ 5,927
Notes payable		
Banks	32,150	30,550
Current maturities of long-term debt	1,035	35
Current invoices, payrolls and accruals	36,026	37,765
Accrued taxes	536	5,485
Amounts due to affiliated companies	605	2,677
Total Current Liabilities	75,568	82,439
LONG-TERM DEBT	24,042	16,302
DEFERRED INCOME TAXES	2,071	1,180
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized, issued and fully paid — 150,000 common shares of \$100 par value	15,000	15,000
Income retained	126,425	118,916
Total Shareholders' Equity	141,425	133,916
Total Liabilities and Shareholders' Equity	\$243,106	\$233,837

Approved by the Board: W. N. Smith, *Director*
P. B. Carter, *Director*

The accompanying Summary of Accounting Policies, Notes 5, 6 and 7 and the Financial Review are an integral part of this statement.

Supplementary Information (continued)



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Consolidated Subsidiaries

Statement of Changes in Financial Position

For the Years ended October 31, 1975 and 1974

	1975 in thousands	1974 in thousands
Source of Working Capital		
Net income	\$ 22,109	\$ 23,640
Items not affecting working capital		
Depreciation and amortization	3,277	2,762
Undistributed earnings of non-consolidated companies	(3,398)	(3,257)
Deferred income taxes	891	438
Other	111	111
Working capital provided from operations	22,990	23,694
Property disposals	193	179
Increase in long-term debt	7,740	16,190
Other — net	6,401	—
Total Source	37,324	40,063
Application of Working Capital		
Capital expenditures	6,303	4,233
Dividends paid	14,600	11,700
Acquisition of Seddon Diesel Vehicles Limited	—	22,882
Other — net	—	7,155
Total Application	20,903	45,970
Increase (Decrease) in Working Capital	16,421	(5,907)
Working Capital — at beginning of the year	64,195	70,102
— at end of the year	\$ 80,616	\$ 64,195
Changes in Working Capital		
Cash	\$ 292	\$ 3
Notes and accounts receivable	11,805	1,310
Deferred income taxes	98	182
Inventories	(2,645)	23,559
Bank indebtedness	711	1,341
Notes payable — banks	(1,600)	(22,780)
Current maturities of long-term debt	(1,000)	201
Current invoices, payrolls and accruals	1,739	(7,724)
Accrued taxes	4,949	(999)
Amounts due to affiliated companies	2,072	(1,000)
Increase (Decrease) in Working Capital	\$ 16,421	\$ (5,907)

The accompanying Summary of Accounting Policies, Notes 5, 6 and 7 and the Financial Review are an integral part of this statement.

Supplementary Information (continued)

Summarized Financial Data — Major Non-consolidated Subsidiaries

October 31, 1975 and 1974

Seddon Diesel Vehicles Limited

Net Sales

1975 in thousands	1974 in thousands
<u>\$ 84,514</u>	<u>\$ —</u>

Net Effect on Consolidated Income

Seddon's net loss (includes unrealized exchange loss on translation of \$292,000)

\$ (362)	\$ —
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Consolidation adjustments

(547)	—
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Net Effect on Consolidated Income (Loss)

<u>\$ (909)</u>	<u>\$ —</u>
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Summary Statement of Financial Condition

Assets

Cash	\$ 8	\$ 41
Accounts and notes receivable	7,475	8,206
Inventories	26,708	22,368
Property, plant and equipment, at cost, less depreciation	14,252	12,961
Other	6,531	7,945

Total Assets

<u>\$ 54,974</u>	<u>\$ 51,521</u>
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Liabilities

Bank indebtedness	\$ 8,954	\$ 6,359
Accounts payable and accruals	19,170	18,510
Long-term debt	7,737	7,919
Deferred income taxes	3,857	2,378

Total Liabilities

<u>39,718</u>	<u>35,166</u>
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Shareholders' Equity

Capital stock	3,997	3,997
Income retained	11,259	12,358

Total Shareholders' Equity

<u>15,256</u>	<u>16,355</u>
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Total Liabilities and Shareholders' Equity

<u>\$ 54,974</u>	<u>\$ 51,521</u>
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International Harvester Credit Corporation of Canada Limited

Net Income

<u>\$ 4,700</u>	<u>\$ 3,641</u>
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Summary Statement of Financial Condition

Assets

Cash	\$ —	\$ 50
Notes receivable — net	242,798	208,932
Deferred income taxes	1,128	998
Prepaid interest and other assets	1,520	867

Total Assets

<u>\$245,446</u>	<u>\$210,847</u>
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Liabilities

Notes payable within one year	\$108,562	\$106,961
Notes and accounts payable to parent company	1,953	13,661
Current maturities of long-term debt	7,475	5,500
Other current payables and accruals	5,094	3,822
Long-term debt	89,657	54,986
Deferred income taxes	3,626	1,139

Total Liabilities

<u>216,367</u>	<u>186,069</u>
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Shareholders' Equity

Capital stock	10,000	10,000
Income retained	19,079	14,778

Total Shareholders' Equity

<u>29,079</u>	<u>24,778</u>
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Total Liabilities and Shareholders' Equity

<u>\$245,446</u>	<u>\$210,847</u>
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**Statistical Data** Dollar amounts in millions

(fully consolidated basis)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
SALES BY AREA OF FINAL SALE										
Canadian Operations										
Canada	\$426.5	401.4	340.7	269.4	204.1	161.6	187.0	170.7	194.8	201.5
United States	190.0	145.2	125.2	93.0	74.2	88.7	74.5	51.7	53.7	42.6
Europe and Africa	5.5	1.1	1.6	1.9	.6	.4	.3	.9	.8	.4
Latin America	1.6	1.3	.7	.9	.3	1.0	1.1	.7	.6	.5
Pacific Area	5.9	1.0	1.0	1.2	1.7	.5	.6	.9	1.1	1.3
	629.5	550.0	469.2	366.4	280.9	252.2	263.5	224.9	251.0	246.3
Seddon Diesel Vehicles Limited	84.5	—	—	—	—	—	—	—	—	—
Total	\$714.0	550.0	469.2	366.4	280.9	252.2	263.5	224.9	251.0	246.3
NET INCOME										
Amount	\$ 22.1	23.6	21.8	17.8	8.1	3.1	3.9	5.3	8.5	10.2
Per cent of sales	3.10%	4.30	4.64	4.86	2.88	1.23	1.48	2.36	3.39	4.14
Per cent of shareholders' equity beginning of year	16.51%	19.38	19.78	17.68	8.54	3.36	4.28	6.06	10.29	13.08
DEPRECIATION AND AMORTIZATION										
	\$ 5.6	4.9	4.8	4.0	3.4	3.7	4.5	4.6	4.2	3.2
TAXES —										
FEDERAL, PROVINCIAL AND LOCAL	\$ 33.7	45.7	43.0	34.2	24.0	14.1	16.0	14.8	20.2	19.5
CAPITAL EXPENDITURES										
	\$ 10.8	20.0	8.5	6.1	3.1	3.8	4.3	3.7	7.6	5.8
SHAREHOLDERS' EQUITY										
AT END OF YEAR										
Capital stock	\$ 15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Income retained	126.4	118.9	107.0	95.0	85.7	79.8	77.2	76.2	72.4	67.6
Total shareholders' equity	\$141.4	133.9	122.0	110.0	100.7	94.8	92.2	91.2	87.4	82.6
REPRESENTED BY										
Current assets	\$340.0	295.7	215.5	179.4	160.2	141.3	144.1	126.1	122.8	121.5
Less: Current liabilities	227.1	224.0	138.2	111.4	89.6	94.0	92.0	70.6	68.2	60.1
Working capital	112.9	71.7	77.3	68.0	70.6	47.3	52.1	55.5	54.6	61.4
Net property	50.2	45.9	31.6	28.3	27.0	29.0	29.5	29.8	31.0	27.7
Notes receivable — long-term	88.9	79.5	63.3	53.0	39.5	44.5	35.2	30.6	20.5	13.1
Other assets	9.9	9.8	4.4	4.3	4.5	4.1	1.7	2.0	2.0	1.8
Total	261.9	206.9	176.6	153.6	141.6	124.9	118.5	117.9	108.1	104.0
Less:										
Long-term debt	114.0	71.7	54.6	43.5	40.4	29.5	26.0	26.1	19.9	20.7
Deferred income taxes	6.5	1.3	—	.1	.5	.6	.3	.6	.8	.7
Total	120.5	73.0	54.6	43.6	40.9	30.1	26.3	26.7	20.7	21.4
Total net assets	\$141.4	133.9	122.0	110.0	100.7	94.8	92.2	91.2	87.4	82.6
NUMBER OF EMPLOYEES										
AVERAGE (CANADA)	7120	7144	6510	5667	4812	5828	6189	6363	7316	7515



**INTERNATIONAL HARVESTER
CANADA**